

## HFA HARDEST HIT FUND

### SUBMISSION OF THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY APRIL 14, 2010

On February 19, 2010, President Obama announced the availability of funding under the Housing Finance Agency (HFA) Hardest-Hit Fund. While the economic and demographic realities leading to Michigan's selection as one of five states eligible for this program are daunting and unenviable, MSHDA is pleased to submit this plan in response to the Treasury Department's Guidelines for HFA Proposal Submission issued on March 5, 2010. The U.S. Department of Treasury will review and approve Michigan's plan by early June and funds should be available to Michigan homeowners by July. Homeowners interested in participating in one of these programs are encouraged to use the time between now and the anticipated enrollment period to gather proper documentation.

Once these programs have been approved by the U.S. Department of Treasury, homeowners can contact their mortgage loan servicer to see if they may be eligible.

For a list of [frequently asked questions and answers](#), click here. If homeowners need additional information they can call MSHDA toll free at 866-946-7432 or [contact a homeownership counselor in their area](#).

Comments and/or suggestions in reference to this fund can be submitted to [savethedream@michigan.gov](mailto:savethedream@michigan.gov)

Beginning with the President's announcement on February 19<sup>th</sup>, MSHDA staff initiated a planning process that has included consultation with stakeholders including the Michigan Bankers Association, the Michigan Credit Union League, the Michigan Association of Community Bankers, the Michigan Association of Realtors, the Michigan Foreclosure Task Force, and MSHDA's statewide homeownership counseling network.

While Michigan is not exempt from the challenges caused by upside down borrowers, our biggest challenge is sustaining homeownership for unemployed and underemployed borrowers. Michigan is in the midst of an historic remaking of our economy. Nationally, over 57 percent of mortgage delinquencies can be attributed to job loss<sup>1</sup>, so with the nation's highest unemployment rate Michigan will focus the majority of its efforts under the Hardest-Hit Fund to problems faced by unemployed homeowners.

MSHDA—through a nonprofit corporation set up specifically for the purpose of being an “eligible entity” under the Hardest-Hit Fund—intends to administer three programs:

- **Unemployment Mortgage Subsidy Program**
- **Loan Rescue Program**
- **Principal Curtailment Program**

---

<sup>1</sup> Making Home Affordable, Service Update Report, February 2010.

The three programs are projected to help more than 16,000 borrowers avoid the devastating personal effects of foreclosure while reducing the secondary but destructive impact foreclosures have on neighbors, neighborhoods, local government budgets, and the social services network.

**Unemployment Mortgage Subsidy Program:** This program will subsidize up to half of the required monthly mortgage payment for borrowers who are unemployed while they seek new employment. Homeowners who have lost their job through no fault of their own and qualify to receive unemployment benefits will apply for assistance through their lender, who will in turn transmit the application to MSHDA for approval.

Unemployed homeowners will be eligible to receive monthly subsidies, paid directly to the lender/servicer, of up to \$750 or 50 percent of the required monthly Principal, Interest, Taxes, and Insurance (PITI) mortgage payment. Assistance will be provided for two months after the homeowner returns to work. The maximum length of assistance will be 12 months.

Almost 65 percent of the state's total allotment will be directed to this program.

**Loan Rescue Program:** Whether it was a divorce, a serious illness, or a recent period of unemployment, many Michigan families have encountered some significant obstacle in their lives that resulted in mortgage delinquency. This program will provide up to \$5,000 in assistance to households who can now sustain homeownership, catch up on delinquent payments and avoid foreclosure. In many cases, the Rescue Program will be coordinated with existing mortgage modification programs to help borrowers restructure their mortgage to sustain homeownership.

MSHDA intends to use 10 percent of the state's Hardest-Hit Fund award for the Loan Rescue Program.

**Principal Curtailment Program:** Many Michigan borrowers, like others across the country, find themselves trapped in unsustainable mortgage loans not by virtue of an inability to pay but by negative equity positions that stand in the way of reasonable and affordable mortgage restructurings or refinancing. This program will provide a one-time matching funding of up to \$10,000 to homeowners seeking to modify their loans. The lender or servicer must agree to provide matching forgiveness of principal overhang and to modify the reduced loan balance consistent with program requirements.

MSHDA anticipates using 20 percent of the state's allocation for this program.

As with the other programs, the Principal Curtailment will prevent avoidable foreclosures by helping homeowners who currently cannot refinance or modify their mortgages due to negative equity positions. Homeowners will benefit from both a restructured loan payment and the reduction in principal balance that must be serviced, reducing monthly payments and increasing sustainability. In many cases, we expect this program will be of particular benefit to recently unemployed borrowers who are back to work at lower salaries.

Despite the substantial and meaningful investment in the state represented by the Hardest-Hit Fund, the resources available are not sufficient to help all struggling homeowners or address

every problem leading to a foreclosure. For nearly a decade, MSHDA has provided funding, training, and oversight to a network of homeownership counselors across the state, and more recently this network has been used to provide foreclosure prevention services and counseling to homeowners facing delinquency or foreclosure. For a listing of qualified housing counselors in your area, [please click here](#).

Within the public outreach efforts and application processes we are developing, it is MSHDA's intent to provide coordinated referrals to this network of agencies for homeowners who do not qualify for these or other existing programs intended to prevent foreclosures and facilitate mortgage modifications. In some cases such homeowners will be provided with assistance and advice in completing a short sale, deed-in-lieu of foreclosure, or a cash-for-keys style transaction in an effort to minimize the financial and social impact a more catastrophic foreclosure can have on families and communities.

MSHDA consulted with several outside partners during the initial development of this plan. Those include the Michigan Bankers Association, the Michigan Credit Union League, the Michigan Association of Community Bankers, the Michigan Association of Realtors, the Michigan Foreclosure Task Force, and MSHDA's statewide homeownership counseling network. Additionally, servicing staff from a selection of community, regional, and national loan servicers participated in sessions intended to begin aligning the application process, data requirements, and the like with existing lender/servicer systems and infrastructure.

Most of the local, regional, and national loan servicers we have consulted have agreed to integrate the Hardest-Hit Fund Programs outlined herein into their current loss mitigation waterfall process, frequently as a complement to the Home Affordable Modification Program (HAMP) or other lender/investor loan modifications options, but also as an option for borrowers who could be helped but do not, for one reason or another, qualify for existing loan modification programs.